

DOCKET SECTION

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY


Postal Rate and Fee Changes, 1997)

Docket No. R97-1

ANSWERS OF THE OFFICE OF THE CONSUMER ADVOCATE
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE
WITNESS: JAMES F. CALLOW (USPS/OCA-T500-1-11)
(January 23, 1998)

The Office of the Consumer Advocate hereby submits the answers of James F. Callow to interrogatories USPS/OCA-T500-1-11, dated January 9, 1998. Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,


SHELLEY S. DREIFUSS
Attorney
Office of the Consumer Advocate

ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES USPS/OCA-T500-1-11

USPS/OCA-T500-1. Did you consider any alternatives to creating groups of offices other than by using CAG designations? If so, please describe each alternative, why it was rejected.

A. No.

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USPS/OCA-T500-2. If you could determine costs for each office, would grouping offices directly into cost-homogeneous groups be preferable to using CAGs to group the offices? Please explain your answer.

A. Since I did not have cost data for each office, I do not know whether costs by office would have been preferable to CAG cost data in developing my fee groups. In the absence of such cost data, I do not know *a priori* whether a reasonable basis for grouping offices might have emerged from the data.

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USPS/OCA-T500-3. Please refer to page 8, lines 10 to 11, where you state that "certain labor costs are not incurred in smaller post offices." Are you stating that certain work (regardless of who performs it) is done only in larger offices and not in smaller offices? If so, please explain. If not, is your position that smaller offices perform such work more efficiently? Please explain.

A. No. It would be reasonable to expect that certain work is required to maintain and service post office boxes, wherever located. What I am saying is that certain labor costs so categorized by the Postal Service (e.g., mailhandler and supervisor costs) are not incurred in smaller post offices because there are no mailhandlers or supervisors in such offices. I do not know whether "certain work" is performed more efficiently in smaller offices. It is clear, however, that such work is not being performed by mailhandlers or supervisors.

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USPS/OCA-T500-4. Please refer to your Table 2.

(a) Please confirm that for non-city offices the highest average rental cost is for CAG E, and the second highest cost is for CAG F. If you do not confirm, please explain why not.

(b) Please confirm that for non-city offices CAGS C, D, E, F, G, and H have higher average rental costs than CAG B. If you do not confirm, please explain why not.

A. (a) Confirmed.

(b) Confirmed. However, it should be noted that the average rental cost of \$5.93 per square foot for CAG B is computed from only three offices. This small number of observations might explain the comparatively low average rental cost for CAG B offices.

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USPS/OCA-T500-5. Please refer to library reference OCA-LR-2, page 16.

(a) Please confirm that for city offices, the maximum rental cost for each of CAGS A through G is between \$33 and \$36. If you do not confirm, please explain why not.

(b) Please confirm that for non-city offices, the maximum rental cost for each of CAGS E through L is between \$17 and \$18, while the maximum rental cost for each of CAGS B through D is between \$9 and \$14. If you do not confirm, please explain why not.

A. (a) Confirmed, if you round the maximum rental cost for CAG E offices to the nearest dollar.

(b) Confirmed.

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USPS/OCA-T500-6. Please refer to your testimony at page 14, lines 5 through 14.

(a) When an office's revenue changes so that it moves between CAGS D and E, or between CAGS G and H, would that office be reclassified into a different fee group under your proposal?

(b) If so, would that reclassification be at the same time as the CAG move, or later. If later, how much later?

A. (a) Yes.

(b) The reclassification of an office into a different fee group, where the office is placed in a new CAG level caused by the office's change in revenues, could be addressed in several ways. One possible approach would to reclassify an office into a different fee group at the time changes in post office box fees are implemented by the Postal Service. Ultimately, however, the determination of when to make such a reclassification should rest with the Postal Service, in a manner that is administratively convenient to the Postal Service.

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USPS/OCA-T500-7. Please refer to your testimony at page 17, lines 6 to 8. If in the future some offices in the city-B delivery group were reclassified into CAG E, or some CAG E offices were added to the city-B delivery group, would you adjust Fee Groups C-I and D-I so that they also include CAG E, as well as CAGs A through D? Please explain your answer.

A. The city-B delivery group, and consequently Fee Group B, consists of "specific high-cost ZIP Code areas in eight large cities and their suburbs." USPS-T-39 at 60. These high-cost ZIP Code areas encompass certain CAG A-D offices. In developing my new Fee Groups C-I and D-I, I accepted the Postal Service's (and the Commission's) determination from Docket No. R90-1 that some CAG A-D offices were in high-cost areas. I decided to use this determination as a basis for my new Fee Groups C-I and D-I. If it were determined that CAG E offices were also in high-cost areas, I would not rule out the possibility of including CAG E, as well as CAG A-D offices, in new Fee Groups C-I and D-I.

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USPS/OCA-T500-8. Please refer to your testimony at page 17, line, 8, to page 18, line 2. Assume that during 1998 the average rental costs for CAG H increased to at least \$5.80 for city-other offices, and \$6.43 for non-city offices. Also assume that the average rental costs for the other CAGS remained the same, so that the CAG H averages were within \$2 of the average CAG E rental cost. Under these conditions, would you adjust your fee group definitions so that CAGS E through H were grouped together? Please explain your answer.

A. I am unable to answer the question as framed because I did not make my determination to group CAGs E-G and H-L in the manner described. Rather, I started with the intention of merging the same CAG level offices from the city-other and non-city delivery groups, which form the basis of Fee Groups C and D. Although this effort was tabled to a future proceeding, see OCA-T-500 at 65-66, the data were used to develop my proposed fee groups.

I decided that three CAG groupings would best achieve the goal of having boxholders in smaller, lower-cost offices pay lower fees associated with the lower costs in those offices. To achieve this goal, I "de-averaged" rental costs by CAG. I reasoned that three CAG groupings would effectively minimize the recovery of costs from boxholders in the smallest CAG offices. I rejected establishing two fee groups because costs would not be de-averaged enough. Four or more fee groups were also unacceptable because they create too complicated a fee schedule.

The first grouping, hypothetical fee group CD-I (CAGs A-D), was based on the CAG level offices constituting the City-B delivery group. The other two groups result from finding an appropriate division of CAG E-L offices. The data presented at page 15 of OCA-LR-2 were the basis of my determination to group CAG E-G offices and H-L

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offices into the remaining two groups: hypothetical fee groups CD-II and CD-III, respectively.

As a first step, I grouped CAG E-G offices and H-L offices to balance the number of CAGs. The computed average rental costs (the upper table of OCA-LR-2 at 15) revealed that the averages for hypothetical fee groups CD-I, CD-II and CD-III fall roughly into two dollar increments, i.e., the average rental cost of hypothetical fee group CD-I is in the \$9 range; the average cost of hypothetical fee group CD-II is in the \$7 range; and the average cost of hypothetical fee group CD-III is in the \$5 range. I considered this a reasonable and acceptable result. The largest CAG offices were shown to have the highest average rental costs and the smallest CAG offices the lowest. Moreover, the average rental cost for hypothetical fee group CD-III (\$5.79) was less than the average for the non-city delivery group as a whole (\$6.00), ensuring lower costs for boxholders in the smallest offices. Because of my desire to avoid "rate shock," I retained the separate fee structure for the city-other and non-city delivery groups. However, I maintained the same groupings by CAG (CAGs A-D, E-G, and H-L) and finally proposed the three groupings separately for the city-other and non-city delivery groups.

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USPS/OCA-T500-9. Please refer to section V, part A of your testimony. If your proposal and fees are implemented, do you believe that Groups C-I and D-I, C-II and D-II, and C-III and D-III could be merged in the next case involving post office box fees, without imposing "rate shock." If so, please explain how, with reference to how large fee increases would need to be to merge the groups. If not, please estimate how many cases would be needed to complete the merger of the C and D groups.

A. No. In developing my fees, the maximum fee increases were limited to 100 percent. In the context of my proposal to restructure fee groups and de-average costs, I considered fee increases of more than 100 percent to be burdensome. In the next rate proceeding, fee increases of more than 100 percent for boxholders in new Fee Groups D-I, D-II and D-III would be necessary if such fees were to be brought to parity with boxholders in new Fee Groups C-I, C-II and C-III. Consequently, I believe merging new Fee Groups C-I and D-I, C-II and D-II, and C-III and D-III would require two more rate proceedings.

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USPS/OCA-T500-10. Please refer to page 66 of your testimony, lines 11 through 15.

(a) Please confirm that Table 16 of your testimony presents total costs per box for Groups A and B that are lower than those presented by the Postal Service in witness Lion's Table 13, as revised October 1, 1997. If you do not confirm, please explain why not.

(b) What is the basis for your proposing higher fees for Groups A and B than the Postal Service has proposed?

A. (a) Confirmed.

(b) Almost all my fees differ from those of the Postal Service, some higher and some lower. My total unit box costs in Fee Groups A and B are only slightly below those of the Postal Service, ranging from 0.49 percent to 4.64 percent less.

Nevertheless, I proposed somewhat higher fees for boxholders in Fee Groups A and B because Fee Groups A and B represent high cost areas which are reflected in relatively higher unit box costs, as compared to other fee groups.

USPS/OCA-T500-11. Please refer to page 67 of your testimony, lines 1 to 4.

(a) Please confirm that under your proposal Group C-I faces larger dollar increases in box fees than Group D-I. If you do not confirm, please explain why not.

(b) How would this greater fee increase for Group C-I than for Group D-I ease the transition when merging fee groups C-I and D-I in the future, as you assert on page 67, lines 14 to 18.

A. (a) Confirmed.

(b) I must emphasize that the percentage increase in fees for new Fee Group C-I is considerably lower than for new Fee Group D-I. I recommend a 40 percent increase for new Fee Group C-I and a 100 percent increase for new Fee Group D-I. It is the relative percentage change in fees for new Fee Groups C-I and D-I that, over time, permits a more gradual transition for boxholders and leads to the merger of the fee groups. In this proceeding, for example, I am proposing a fee of \$56 for box size 1 in Fee Group C-I, a fee that is 133 percent greater ($\$56/\$24-1$) than the proposed \$24 fee for the same size box in Fee Group D-I. In a subsequent proceeding, I might propose a \$48 ($\$24*2.0\%$) fee for box size 1 in Fee Group D-I, and a \$78 ($\$56*1.40\%$) fee for box size 1 in Fee Group C-I, a fee that is 63 percent ($\$78/\$48-1$) greater. In this way, the fees for Fee Groups C-I and D-I would tend to converge.

By implication, the question is proposing that new Fee Groups C-I and D-I receive the same dollar increase. By way of illustration, for a box size 1, fees in new Fee Group D-I would be increased by \$16 (rather than \$12) or, in the alternative, fees in new Fee Group C-I would be increased by \$12 (rather than \$16).

Both alternatives are problematic. Increasing fees by \$16 for a box size 1 in new Fee Group D-I would have constituted a 133 percent ($(\$12+\$16)/\$12-1$) increase. In fact, any fee increase of more than \$12 would have been greater than 100 percent. I

considered fee increases greater than 100 percent to be burdensome. Increasing fees by only \$12 for new Fee Group C-I would have required that additional revenues be obtained through higher fees from other fee groups. My proposed fees balance the need for additional revenues among fee groups and boxes in the context of de-averaging costs and better aligning fees with costs.

DECLARATION

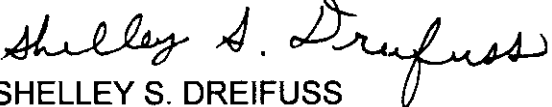
I, James F. Callow, declare under penalty of perjury that the answers to interrogatories USPS/OCA-T500-1-11 of the United States Postal Service are true and correct, to the best of my knowledge, information and belief.

Executed James F. Callow

1-23-98

CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the rules of practice.


SHELLEY S. DREIFUSS
Attorney

Washington, DC 20268-0001
January 23, 1998